Highview Resources Ltd.

2001 Annual Report

Corporate Profile

Highview is a publicly traded junior oil and gas company engaged in the acquisition, exploration and exploitation of petroleum and natural gas reserves in Western Canada. Highview trades on the Canadian Venture Exchange, symbol HVW.

Corporate Summary

	Years Ended November 30	
	2001	2000
Financial		
Total revenue	**$ 629,480**	$ 357,349
Cash flow	**$ 388,469**	$ 184,909
Cash flow per share (diluted)	**$ 0.03**	$ 0.01
Net income	**$ 143,076**	$ 81,194
Net income per share	**$ 0.01**	$ 0.01
Working capital (deficiency)	**$ (26,855)**	$ 444,511
Total shares outstanding	**14,291,677**	14,291,677
Operations		
Production		
Gas (mcf/d)	**409**	91
Oil (bbls/d)	**4**	19
Boe/d (6mcf = 1bbl)	**72**	34
Reserves (proved plus 50% probable)		
Gas (mmcf)	**1,311**	245
Oil (mbbls)	**22**	21
Mboe	**241**	62
Before tax present value (10% discount)	**$ 2,545,000**	$ 749,000

About the Cover:
The cover depicts the Company's Bindloss pipeline, located in southern Alberta.

Annual Meeting

Highview invites its Shareholders and other interested parties to attend the Company's Annual Meeting at 3:00 p.m. (MST), Tuesday, May 14, 2002, in the offices of the Corporation, Suite 1800, 633 Sixth Avenue S.W., Calgary, Alberta.

To The Shareholders

I am pleased to report improved financial and operating results for Highview for the year ended November 30, 2001.

During the year, the Company established a natural gas production base and land inventory in east-central Alberta, which will permit an active exploration program to be conducted in 2002.

Financial

For 2001, Highview reported revenues of $798,000, a substantial increase from the $398,000 reported for the prior year. Cash flow increased to $388,000 compared with $185,000 in 2000 and Highview reported net income of $143,000 compared with $81,000 in 2000.

During the period, capital expenditures totaled $860,000 compared with $408,000 in the prior year. These expenditures were related to the drilling of two new wells, at Bindloss and Lloydminster, as well as the tie-in of a Viking gas well at Alkali. The Company exited 2001 with a small capital working deficiency, of $27,000, and no debt.

Production

Highview's production for 2001 averaged 409 Mcf per day and 4 barrels of oil per day compared with 91 Mcf per day and 19 barrels of oil per day for 2000.

In late 2000, the Company's oil property at Amisk was sold reducing its production to 4 barrels of oil per day. New gas wells tied-in during the year at Bindloss and Alkali resulted in the significant increase in gas production.

Exploration and Development

During 2001, Highview drilled one gas well and one oil well and acquired an interest in a gas well by connecting a well to market.

Bindloss

Highview's exploration focus, during 2001, was in the Bindloss area. The Company participated in the drilling of an excellent dual zone gas well at Bindloss 2-17-23-05 W4M. A secondary zone proved to be of limited extent and was suspended after producing over 200 mmcf of natural gas in five months. Highview re-completed the well in the principal target zone and the well is producing at a rate of 500 mcf per day, net to Highview. A second well, which is being evaluated, was drilled on this prospect subsequent to year end. Highview has acquired interests in six adjacent sections and intends to undertake further development activities, during 2002.

Lloydminster

In the Lloydminster area, Highview drilled a heavy oil prospect, which encountered a thick oil horizon with a thin gas cap. Completion results were successful and the Company is awaiting the necessary government approvals to place the well on stream, initially as a gas well.

Other Properties

Highview acquired a 39% working interest in a gas well in the Alkali area by paying the cost of constructing facilities to connect the well to market. Subsequent to year end, Highview also participated for a 10% working interest in a gas well in the Helmsdale area and has purchased a 10% interest in lands on 5 additional gas prospects, which will be drilled in 2002.

Outlook

Highview's cash flow and land base will allow for an expanded exploration program, during 2002.

Additional drilling on the Company's new prospects will commence during the summer and a joint venture arrangement has been entered into, to provide access to new deals on an ongoing basis.

The Company is still being managed by its Board of Directors but, with an expanding asset portfolio, it is the intention to actively look for a new management group to oversee the next phase of the Company's growth.

On behalf of the Board,

R.W. Lamond
President
March 21, 2002

Reserves and Reserve Values

Highview's petroleum and natural gas reserves were evaluated by independent engineering consultants, Ashton Jenkins Mann Petroleum Consultants, effective November 30, 2001.

The consultants assigned established reserves of 22,000 barrels of oil and natural gas liquids and 1.3 bcf of natural gas, net to the Company's properties. The reserves were assigned a net present value, at a 10% discount rate, of $2.5 million. Approximately 14% of the reserves and 10% of the net present value were attributed to probable reserves.

Oil and Natural Gas Reserves at December 1, 2001

	Reserves before Royalties		Estimated Net Present Value Before Tax ($Millions)		
	Natural Gas (mmcf)	Oil & NGL's (mstb)	Undiscounted	10%	15%
Proved developed	872.0	–	$ 2.3	$ 1.7	$ 1.5
Proved undeveloped	72.0	13.0	0.2	0.2	0.2
Total proved	944.0	13.0	2.5	1.9	1.7
Probable (risked)	367.0	9.0	1.3	0.6	0.5
Total established reserves	1,311.0	22.0	$ 3.8	$ 2.5	$ 2.2

The Engineering Report assumes a $US West Texas Intermediate price of $25.50 per barrel, for 2002, declining to $22.90 in 2003 and $22.10 by 2006. The Alberta spot gas price for 2002 is $3.70 per mcf, increasing to $4.35 by 2006.

Reserves Continuity

The following table provides a summary of the change in the Company's proved and risked probable reserves over the past year. Over the last year, Highview increased its gas reserves by 285% and the total boe increased by 291% to 240 mbbls from 62 mbbls in 2000.

Natural Gas (mmcf)		Proved	Probable (Risked)	Total
Reserves at November 30, 2000		245,000	–	245,000
2001				
Production		(149,196)	–	(149,196)
Additions:	Drilling	463,000	309,000	772,000
	Acquisitions	–	–	0
	Dispositions	–	–	0
Revisions		385,196	58,000	443,196
Reserves at November 30, 2001		**944,000**	**367,000**	**1,311,000**

Oil and Natural gas liquids (bbls)		Proved	Probable (Risked)	Total
Reserves at November 30, 2000		8,000	12,700	20,700
2001				
Production		(1,464)	–	(1,464)
Additions:	Drilling	13,000	9,000	22,000
	Acquisitions	–	–	–
	Dispositions	–	–	–
Revisions		(6,536)	(12,700)	(19,236)
Reserves at November 30, 2001		**13,000**	**9,000**	**22,000**

Management's Discussion and Analysis

The Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements for the year ended November 30, 2001. The analysis compares the results for the year ended November 30, 2001 with November 30, 2000.

Production

For the Year ended November 30	2001	2000
Gas (mcf/day)	**409**	91
Oil (bbl/day)	**4**	19
Boe (1bbl = 6mcf)	**72**	34

Higher natural gas volumes resulted from the commencement of production of the Bindloss 2-17 and Alkali 6-18 gas wells, in the fourth quarter of 2001. Lower oil production reflected the sale of Highview's interest in the Amisk property in August, 2000.

Revenue from Oil and Gas Production

For the Year ended November 30	2001	2000
Revenue	**$ 798,330**	$ 397,801
Royalties	**219,908**	56,203
Alberta Royalty Tax Credit	**(37,332)**	(11,565)
Royalties, net of ARTC	**182,576**	44,638
Net Revenue	**$ 615,754**	$ 353,163

Higher revenue resulted from an increase in natural gas production which was offset, to a small degree, by lower oil production for the period.

Product Prices

For the Year ended November 30	2001	2000
Gas ($/mcf)	**$ 5.14**	$ 5.03
Oil ($/bbl)	**$ 21.34**	$ 33.72

Highview's average gas price was $5.14, compared with $5.03 in 2000. The average price in 2001 reflects the extremely high gas prices at the beginning of the year, which declined to the $3.00 per mcf level, by year end. Prices have since recovered to above $4.00 per mcf, in the first quarter of 2002.

Operating Expense

For the Year ended November 30	2001	2000
Total	**$ 146,371**	$ 100,681
per Boe	**$ 5.56**	$ 8.14

Operating expenses decreased, on a boe basis, as a result of higher gas production volumes in 2001 and the sale of the Amisk property, which had high operating costs.

General and Administrative Expenses

For the Year ended November 30	2001	2000
Total general and administrative cost	**$ 186,911**	$ 163,209
Capitalized overhead	**92,271**	91,450
Total	**$ 94,640**	$ 71,759
per Boe	**$ 3.59**	$ 5.80

General and administrative expenses were moderately higher during 2001. However, as a result of higher production volumes, they were reduced on a boe basis.

Depletion

For the Year ended November 30	2001	2000
Depletion expense	**$ 154,812**	$ 91,190
Site restoration expense	**9,977**	12,525
Total depletion	**$ 164,789**	$ 103,715
per Boe	**$ 6.26**	$ 8.38

Higher production, during the year, increased the Company's depletion expense. The sale of the Amisk property reduced the future site restoration liability and, therefore, the site restoration expense was lower, for the period.

Finding and On-stream Costs

For the Year ended November 30	2001	2000	Two Year Total
Land	**$ 108,847**	$ 45,295	$ 154,142
Drilling	**480,164**	222,023	702,187
Production facilities	**267,390**	140,665	408,055
Reserve acquisitions	–	–	–
Other assets	**3,434**	–	3,434
	$ 859,835	$ 407,983	$ 1,267,818
Additional cost required	**184,100**	–	184,100
Total finding and on-stream costs	**$ 1,043,935**	$ 407,983	$ 1,451,918

Reserve Additions (Bbls)

For the Year ended November 30	2001	2000	Two Year Total
Proved	**147,830**	34,167	181,997
Proved plus 50% probable	**205,297**	43,500	248,797

Finding and On-Stream Costs ($/boe)

For the Year ended November 30	2001	2000	Two Year Average
Proved	**$ 7.06**	$ 11.94	$ 7.98
Proved plus 50% probable	**$ 5.09**	$ 9.38	$ 5.84
Operating net back	**$ 18.35**	$ 20.74	$ 19.11
Reinvestment efficiency	**3.60**	2.20	3.30

Tax Pools

For the Year ended November 30	2001	2000
Canadian oil and gas property expense	**$ 110,406**	$ 375
Canadian development expense	**152,163**	74,506
Canadian exploration expense	**352,223**	271,970
Undepreciated capital cost	**331,060**	167,126
Loss carry-forward (expiry 2004 to 2006)	**92,274**	115,773
	$ 1,038,126	$ 629,750

Liquidity and Capital Resources

At November 30, 2001, Highview had a working capital deficiency of $27,000 and no debt. In December, 2001, Highview arranged a revolving loan from its principal shareholder, Humboldt Capital Corporation, in the amount of $300,000, to finance its short-term capital requirements. Based on current production levels and commodity prices, Highview's cash flow will allow the Company to repay the Humboldt loan, within the next year.

Highview will require additional financing in order to conduct its exploration and development program, during 2002.

Auditors' Report

To the Shareholders of
Highview Resources Ltd.

We have audited the consolidated balance sheet of **Highview Resources Ltd.** as at November 30, 2001 and 2000 and the consolidated statement of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 1, 2002

PricewaterhouseCoopers LLP
Chartered Accountants

Consolidated Balance Sheet

As at November 30		**2001**		2000
ASSETS				
CURRENT ASSETS				
Cash	**$**	**17,777**	$	381,772
Accounts receivable		**463,536**		115,104
		481,313		496,876
Property, plant & equipment (Note 3)		**1,510,497**		650,662
Accumulated depletion & depreciation		**(233,505)**		(78,693)
		1,276,992		571,969
Total Assets	**$**	**1,758,305**	$	1,068,845
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	**$**	**508,168**	$	52,365
Future tax liability (Note 5)		**80,604**		–
Future site restoration		**15,181**		5,204
		603,953		57,569
SHAREHOLDERS' EQUITY				
Share capital (Note 4)		**1,081,584**		1,081,584
Retained earnings (deficit)		**72,768**		(70,308)
		1,154,352		1,011,276
Total Liabilities and Shareholders' Equity	**$**	**1,758,305**	$	1,068,845

Approved by the Board:

(Signed) *"R.W. Lamond"* Director (Signed) *"C.A. Teare"* Director

Consolidated Statement of Operations & Retained Earnings (Deficit)

Years Ended November 30		2001		2000
Revenue				
Oil & gas revenue	$	**798,330**	$	397,801
Royalties, net of Alberta Royalty Tax Credit		**(182,576)**		(44,638)
Interest income		**13,726**		4,186
		629,480		357,349
Expenses				
Operating		**146,371**		100,681
General and administrative		**94,640**		71,759
Depletion & depreciation		**164,789**		103,715
		405,800		276,155
Income before taxes		**223,680**		81,194
Future income taxes (Note 5)		**80,604**		–
Net income		**143,076**		81,194
Deficit, beginning of period		**(70,308)**		(151,502)
Retained earnings (deficit), end of period	$	**72,768**	$	(70,308)
Net income per share (Note 4)				
Basic and diluted	$	**0.01**	$	0.01

Consolidated Statement of Cash Flows

Years Ended November 30		2001		2000
Cash provided by (used for):				
Operating Activities				
Net income	$	**143,076**	$	81,194
Non-cash items				
Depreciation & depletion		**164,789**		103,715
Future taxes		**80,604**		–
Cash flow from operations		**388,469**		184,909
Change in non-cash working capital		**(94,268)**		1,549
		294,201		186,458
Cash provided by (used for):				
Investing Activities				
Acquisition of property, plant & equipment		**(859,835)**		(407,984)
Disposition of property, plant & equipment		**–**		438,322
Changes in non-cash working capital		**201,639**		(80,978)
		(658,196)		(50,640)
Increase (decrease) in cash		**(363,995)**		135,818
Cash, beginning of period		**381,772**		245,954
Cash, end of period	$	**17,777**	$	381,772
Cash flow per share	$	**0.03**	$	0.01
Supplementary information regarding cash payments:				
Interest expense	$	**–**	$	–
Income tax	$	**–**	$	–

Notes to the Consolidated Financial Statements

1. Accounting Policies

Consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Royal Crusader Energy Corp. ("Royal Crusader").

Property, Plant and Equipment
The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. Costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities.

The capitalized costs and estimated site restoration and abandonment costs, are depleted and depreciated using the unit-of-production method based on proven petroleum and natural gas reserves, as determined by independent consulting engineers. Oil and natural gas liquids reserves and production are converted into equivalent units of natural gas based on relative energy content.

The carrying value of petroleum and natural gas properties and production equipment, net of recorded future income taxes and future site restoration and abandonment costs, is compared annually to an estimate of net future cash flow from the production of proven reserves using year-end prices, plus the lower of cost and estimated fair value of unproved properties, less estimated future general and administrative expenses, financing costs and income taxes.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Future Site Restoration
Estimated future abandonment and site restoration costs for the Company's oil and gas properties are provided using the unit of production method. An expense of $9,977 (2000 - $12,525) is included with depletion and depreciation expense.

Joint Ventures
The Company's activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

Share Based Compensation Plan
The Company has a stock based compensation plan, which is described in Note 4.

No compensation expense is recognized for this plan when the stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

Use of Accounting Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Change in Accounting Policy

During 2001, the Company adopted the Treasury Stock Method of calculating diluted earnings per share. There was no change in the 2001 or 2000 earnings per share as a result of adopting this change in method.

During 2000, the Company retroactively changed from the deferral method of accounting for income taxes to the future income tax methodology. The effects on the financials statements are insignificant.

3. Property, Plant and Equipment

At November 30, 2001, $281,548 costs were excluded from the depletable cost base (November 30, 2000 - $77,586). Administrative expenses of $92,271 related to exploration and development activities were capitalized as part of property, plant and equipment (2000 - $91,450).

The Company applied a ceiling test to capitalized costs as at November 30, 2001 and November 30, 2000 using the year end prices of $15.53 per barrel of crude oil (2000 - $40.57) and $3.28 per thousand cubic feet of natural gas (2000 - $6.74). No write-down was required as a result of the ceiling test.

4. Share Capital

Authorized
Unlimited number of voting common shares, no stated par value
Unlimited number of first preferred shares
Unlimited number of second preferred shares

Issued and Outstanding Common Shares	No. of Shares		Amount
Balance, November 30, 2001 and 2000	14,291,677	$	1,081,584

Earnings (Loss) per Share
Basic earnings per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into net earning attributable to the shareholders. Weighted average number of shares outstanding for 2001 and 2000 were 14,291,677.

The Company uses the treasury stock method to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive

instruments impact the dilution calculations. None of the Company's dilutive instruments were in the money, for the years ended November 30, 2001 and 2000.

Share Based Compensation Plan
The Company established an employee option compensation plan, which was approved by the Shareholders on May 18, 1999. Pursuant to the plan, the Company may grant to employees and directors options to purchase up to 10% of its shares outstanding at the time of the grant. Options are to be granted to purchase common shares. Options are exercisable for a maximum period of 5 years. One-third of the options granted vest on the day of the grant, one-third vest after one year and the balance vest after two years. The exercise price for the options is set by the Board of Directors at market, or higher, on the date of the grant.

A summary of the Company's option plan as at November 30, 2001 and 2000, is as follows:

	2001		2000	
Fixed Options	**Shares**	**Weighted-average price**	Shares	Weighted-average price
Outstanding - beginning of year	**950,000**	**$0.150**	950,000	$0.150
Cancelled	**(400,000)**	**$0.150**	–	–
Outstanding - end of year	**550,000**	**$0.150**	950,000	$0.150
Options exercisable - end of year	**550,000**	**$0.150**	633,600	$0.150

The following table summarizes information about fixed stock options outstanding at November 30, 2001:

Exercise Price	**Outstanding November 30, 2001**	**Weighted-average remaining life (years)**	**Exercisable November 30, 2001**
$0.15	550,000	2	550,000

5. Income Taxes

The provision for income taxes in the consolidated statement of operations and retained earnings (deficit) varies from the amount that would be computed by applying the expected tax rate to earnings, before income taxes. The expected tax rate used was 42.6% (2000 - 44.6%) for Canadian income. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	2001	2000
Computed expected income tax expense	**$ 95,332**	$ 36,229
Increase (decrease) in income taxes resulting from:		
Federal resource allowance	**(36,501)**	(18,513)
Non-deductible royalties	**64,981**	23,098
Alberta Royalty Tax Credit	**(15,911)**	(5,160)
Utilization of previously unrecognized tax losses	**(27,297)**	(35,654)
Actual income tax expense	**$ 80,604**	$ –

At November 30, 2001, the Company had the following tax deductions available to reduce future taxable income:

Canadian oil and gas property expense	$ 110,406
Canadian development expense	152,163
Canadian exploration expense	352,223
Undepreciated capital cost	331,060
Loss carry-forward (expiry from 2004 to 2006)	92,274
	$ 1,038,126

Future income tax on the balance sheet is comprised of temporary differences and future income tax reductions. These temporary differences are as follows:

	2001	2000
Excess carrying value of assets over associated tax basis	**$ 126,075**	$ 31,232
Future site restoration costs	**(6,394)**	(2,322)
Non-capital tax losses	**(38,866)**	(41,173)
Attributed Canadian royalty income	**5,284**	–
Share issue costs	**(5,495)**	(11,642)
Unrecognized tax asset	**–**	23,905
Future tax liability	**$ 80,604**	$ –

6. Financial Instruments

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, accounts payable and accrued liabilities.

Fair Values of Financial Assets and Liabilities
The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

7. Related Party Transactions

During the year ended November 30, 2001 the Company incurred $120,078 (2000 - $112,532) in professional fees from private corporations controlled by certain officers and directors of the Company.

During the year ended November 30, 2001, the Company participated in a joint exploration, development and land acquisition program with a company which is controlled by certain of Highview's shareholders. At November 30, 2001, Highview had a net receivable from its joint venture partner of $88,000 which was paid during the normal course of operations.

8. Comparative Figures

Certain comparative figures have been reclassed to conform to the 2001 presentation.

9. Subsequent Events

Subsequent to the year end, the Company entered into a loan arrangement with its controlling shareholder, Humboldt Capital Corporation. This loan of $300,000 was used to fund the short-term cash requirements relating to the development costs in the Company's core areas. The Company will pay interest at a rate of bank prime plus 2%. The note will be repaid out of future cash flow from operations.

Corporate Information

Head Office

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Directors

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[1] Member of Audit Committee

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Bankers

Alberta Treasury Branch
Calgary, Alberta

Subsidiaries

Royal Crusader Energy Corp.

Officers

R.W. Lamond
President

C.A. Teare
Chief Financial Officer

D.K. Clark
Vice President, Operations

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Registrar & Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing

Canadian Venture Exchange
Trading Symbol: HVW